

THE ROLE OF GOVERNANCE IN IMPROVING THE GLOBAL EFFECTIVENESS OF THE SERBIAN ECONOMY: THE CASE OF THE BUILDING CONSTRUCTION INDUSTRY

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Abstract

Based on international business theory premise that first entrants to a new market gain comparative advantages, Serbia, the latest nation to transit to a market economy, is an interesting target for foreign investors. This paper attempts to present what business people may expect in terms of governance if entering the Serbian market. Attention is paid to the building and construction industry which has significantly contributed to the economic recovery of the country destroyed by political disaster. If foreign companies know what constitutes the role of governance in improving the effectiveness of the Serbian economy, they will make quicker decisions to enter this market and consequently gain competitive advantages.

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INTRODUCTION

A comprehensive review of the literature has shown many significant contributions to understanding what elements influence the success of countries in transition towards a market economy (Moers, 2002; Coricelli & Djankov, 2001; Walsh & Whelan; 2001). Attention is paid to privatisation which influences enterprise restructuring and, therefore, changes in management, corporate governance, and organizational structure (Bornstein, 2001). It is believed that these changes help an enterprise to gain competitive advantage in the global market and, therefore, contribute to increasing nation wide efficiency. Changes in governance reflect the abandonment of old leadership styles in the private sector in favour of new ones known in the literature as Western governance styles. Insignificant attention, however, is paid to the influence of privatisation on governance in the public sector. Privatisation is too often followed by social protection programs offered to countries in transition by world leading financial institutions. By social protection is meant public intervention that assists individuals, households, and communities to manage social risk effectively through the social security system (The World Bank, 2000). The rapid privatisation policies advocated by Sachs were supported by the World Bank and International Monetary Fund (IMF) (Blanchard et al, 1994). They proved to be flawed due to the fact that new forms of social security programs were not introduced as the old state supported cradle to grave system was dismantled (IMF Survey, 2001). This failure influenced international banking institutions to modify their approach in helping transition countries to develop their social security system (SSS) (Einhorn, 2001). Their intervention is now preceded in terms of long-term human development, and as risk management rather than unacceptable costs that should necessarily be minimized (World Labor Report, 2000).

Serbia is the latest, former East European socialist country to fully enter the transition period and begin the process of building an institutional and industrial base competitive with a market economy. Three factors have adversely affected the transition process: low gross domestic product (GDP) (See Table 1), an average wage of US\$840 per year and a third of the population below the poverty line (Djelic, 2002).

As Table 1 shows dramatic changes began after 2000. This is due to many factors: prices were liberalized and year-on-year inflation was increased. However, in 2001 cumulative inflation was reduced to 40.7 percent from 112 percent in 2000. With these changes came a liberalization of the foreign trade rate, accompanied by the abolition of bureaucratic obstacles, low customs duties and simplified customs tariffs and procedures. The National Bank of Yugoslavia has pursued a monetary policy based on covering the money supply with foreign policy. It reduced its loans to the Government and stopped directly lending to enterprises, as was its earlier practice. The banking system was restructured with four major banks shut down because they incurred major losses. A new fiscal system was introduced based on the integration of the budget and the pooling of all fiscal revenues and fiscal expenses. The number of people employed in the private sector has risen, while the employment in state-owned enterprises has dropped. At present, state-owned enterprises control 80 percent of the capital stock with 75 percent labour force employed and total profits of less than 50 percent (Brankovic & Nenadovic, 2002).

Table 1: Basic Economic Indicators, Serbia, 1998-2002

Indicator	1998	1999	2000	2001	2002
Real GDP growth (%)	2.3	-18.3	5.7	6.2	4.0
Growth in industrial production (%)	4	-26	12	0	3
Growth in the real net wage index (%)	2	-16	6	17	4
Open unemployment rate (%)	22.8	25.5	25.6	26.8	27.9
Trade balances (\$millions)	-1,673	-1,512	-1,773	-2,493	-2,624
Export of commodities (\$millions)	2,685	1,369	1,557	1,708	1,947
Percentage change in commodities' export	8.8	-49.0	13.7	9.7	14.0
Imports of commodities (\$millions)	4,358	2,881	3,330	4,201	4,571
Percentage change in commodities' imports	0.7	-33.9	-15.6	26.2	8.8
Foreign currency reserves of the National Bank of Yugoslavia, year end (\$millions)	n.a	297	524	1,169	1,319
Discount rate, average of monthly rates (%)	n.a	2.13	2.00	1.47	n.a
Market interest rate, av. of monthly rates (%)	7.0	4.3	5.8	4.8	n.a
Consumer price inflation, year-on-year (%)	29.9	43.5	112	40.7	n.a
Exchange rate, yearly average (YUN/\$)	11.2	23.2	54.9	66.4	n.a

n.a Not available

Source: Based on projections by the G17 Institute, the Serbian and Yugoslav Governments, and the IMF. Cited from Brankovic & Nenadovic, 2002, 22.

The enactment of the Privatisation Law in June 2001 in Serbia has brought an interest to establish joint business ventures and investments with foreign and domestic capital. The Law praised by foreign experts "as the best privatisation law among transition countries" stipulates the sale of companies by tender or auction, with large enterprises sold through international tenders (Privatisation in Serbia News, 2002). The Foreign Investment Law providing a complete protection of property rights to foreign investors accompanies the Privatisation Law. Accordingly, there are no limits defined of the investment, nor minimum investment and property share. The Foreign Investment Law also indicates that the majority of Western countries, including Australia, have reciprocity with Serbia in the field of foreign investment (Government of the Republic of Serbia, 2002). This is encouraging and also presents opportunity for Australian investors to look to develop business in Serbia.

In this paper we have researched changes in governance in the Building Construction Industry (BCI). There are two reasons for the choice of this industry. Firstly, BCI plays an important role in economic growth in every country by significantly contributing to GDP, employing the majority of unskilled and semi-skilled workers, and influencing other industrial growth (Petrovic-Lazarevic, 2002) Secondly, since the Serbian economy was destroyed by the cumulative effects of UN sanctions and the Balkan wars, this industry's priority is to help rebuild the country.

In today's literature the term governance mainly relates to corporate governance (Westphal & Zajac, 1997; Meyer, 2000). The most common approach is to understand corporate governance as a system by which business corporations are directed and controlled. The system has legal, institutional and historical aspects (Bebchuk & Roe, 1999). Legal aspects cover business regulations reflecting rights and obligations of political parties in a society. Historical aspects point to a level to which parties in power are able to manipulate both political and economic changes which they favour. Institutional aspects relate to regulations of relationship in a private sector among owners, managers and board of directors in an enterprise.

From the point of view of transition, the corporate governance of countries is researched as a process of change of ownership and enterprise restructuring (Meyer, 2000). Several econometric models confirm the evidence of the effects of privatisation on corporate performance (Walsh & Whelan, 2001; Frydman et al, 1999).

Mullin (1993) states that success in restructuring of an enterprise is dependent on the vision and communication skills of top managers and their role in taking strong ownership. Top managers are executive personnel in the management system of an enterprise who perform duties of fulfilment, maintenance and support of managerial functions. As leaders they are involved in strategic and investment decision-making processes. Since leadership indicates power relationship, top management behaviour is dependent on the role of government and its social and economic activities expressed in a valid SSS.

The literature review on governance in the public sector covers the changing role of government from the traditional bureaucratic model to that of new public management. The importance of having a valuable public sector is recognised as a pre-condition for effective economic, political and social progress (Hughes, & Samaratunge, 2001; Hughes, 1994).

Governments determine the standard of living for most people through their public sector services such as the quality of education, health system, community care, urban planning, welfare services, environment, public transport and law and order. Thus, the public sector affects the private sector and the entire economy and society. The main instruments of government are provision of goods and services through government budgets, and regulation of the private sector by allowing or prohibiting certain activities.

In recent years, the role of government in the public sector in Western countries has changed from traditional public administration to a new public management model (Hughes, 1998). The new public management's focus is to improve the efficiency and effectiveness of the public sector. The best way to this is to be responsive to clients. Specifically, the health system and education are the cornerstone of the new model (Hughes & Samaratunge, 2001).

In non-Western countries, however, an efficient and facilitative role of government is a necessary condition to improve the public sector (OECD, 1998). In this respect, to prevent corruption and bribery, as a common aspect of governance, public servants should have better conditions of employment, compared to those of the private sector. To enable the role of government in non-Western countries to improve, leading financial institutions have provided financial help to many of these countries, including transition countries. As a result the privatisation and the abandonment of soft-budget constraints have accelerated.

In a pre transition period, in many former socialist countries including Serbia, the economic system was based on a cradle to the grave SSS with full labour market goals, including a social safety net to cover social risks, and large amounts of resources devoted to health and pensions (Heller, Keller, 2001). With the imposition of a transition period, the old SSS collapsed, contributing to a rise in poverty (Petrovic-Lazarevic, 2002).

Given that transition, as transformation of firms and industries in many aspects affects governance, in this paper we emphasize how the new management styles influence market orientation of firms, in particular in BCI, and consequently the efficiency of the Serbian economy. This paper is divided as follows: part two explains how the process of privatisation influences development of corporate governance and changes in leadership in private sector; part three presents changes in public governance. The final section presents concluding remarks and directions for future research.

PRIVATISATION AND CORPORATE GOVERNANCE

At present Serbia faces the transitional period towards an individual, civil, high technology society through the implementation of reforms to establish a legally stable country. The process of privatisation relates to a radical change of ownership structure. As a chief prerequisite for attracting domestic and foreign investments, privatisation deals with socially and state owned properties contributing to increase a social stability of both employees and citizens (Radovic-Jankovic, 2002). The primary interest of the Serbian Government since October 2000 has been to abolish socially owned properties, considered to be without real ownership, and to restrict state owned properties. In addition, the Government has introduced hard budget constraints to replace soft budget institutions from the previous ownership system. Hardened budgets reduce or eliminate government subsidies to state and socially owned enterprises (World Bank, 2002).

The process of privatisation in Serbia began initially in early 1990s. Capital was distributed in two stages. During the first stage, 60 percent of the total capital of a state or socially owned company was distributed free of charge to the employees of the company. Ten percent went to pension funds and the remaining 30 percent was sold to the employees at discounted prices. These prices were subject to the employees' years of employment within a company. The longer the employment, the higher the discount. At that time, there were no relevant institutions as models to following the process of privatisation, such as a capital market or an appropriate banking system. Consequently, by possessing their shares owners of companies did not feel real owners. That led to a slow process of privatisation with adverse influence on the standard of living (Privatizacija u Srbiji, 2001).

Following the experience of other European countries in transition, the first Serbian Democratic Government insisted on the establishment of agencies as publicly owned state institutions. These are: the Agency for Privatisation, the Shareholders Fund and the Agency for Development of Small and Medium Enterprises and Entrepreneurships. The Privatisation Agency is authorised to promote, initiate, manage, conduct and control the privatisation process, but is also to give free advises as to how to approach a process of privatisation and which model to apply. The purpose of the Shareholders Fund is to make valuable those shares gained from the early 1990-s period of privatisation in Serbia. The Agency for Development of Small and Medium Enterprises and Entrepreneurships provides financial consulting, legal support, market research and management support to all those who are willing to sacrifice their savings, and time and reputation for the realisation of their entrepreneurial ideas. Compared to the economic system before October 2000, this is a significant step forward in that it provides information on how to overcome many administrative barriers when starting a new business.

At present, the privatisation process has two forms: sale of capital and transfer of capital free of charge. The former implies two methods: public tender and public auction. The value of capital to be privatised must be presented through discounted cash flows or liquidation cash flows.

The process of public tender is the responsibility of the Ministry of Privatisation. It covers enterprises of strategic importance for economic development of the country. Employees of such enterprises may acquire shares up to 15 percent of an enterprise's capital free of charge, and another 15 percent will be distributed free to adult citizens. The Agency for Privatisation organises the whole process of tendering. It nominates a tender committee composed of a consulting company, investment bank or solicitors with expertise in public tenders. The consulting company is usually an internationally recognised organization that deals with public tenders. The whole public tender procedure lasts one year. At present 70 tenders are open. Of seven tenders finalised so far, five were successful including three cement plants sold for around \$150 million (Pocetak za imetak, 2002).

However, public auction for small to medium enterprises is in its infancy. Serbian private entrepreneurs are short on funds for paying the required deposits to participate at an auction and do not show any interest in the system (Popovic, 2002). At present the Government encourages banks to include their participation in Belgrade Stock Exchange by providing loans on favourable terms. According to the Ministry of Privatisation estimates, this would assist in achieving a possible 200 public auctions by the end of year 2002. Proceeds obtained by the sale of capital are in charge of public governance. They go to funds for the economic development of the country, and the State Fund to cover Pension and Disability Insurance (Radovic-Jankovic, 2002).

Public auction covers the sale of up to 70 percent of the total value of state owned and socially owned companies estimated by discounted cash flows or liquidation cash flows. The other 30 percent is distributed to the employees free of charge. The employees are allowed to bid for 70 percent of their company's value. The whole process of public auction is organised by the Agency for Privatisation and the Belgrade share market.

The process of privatisation that is based on the sale of capital through public auction, free of charge transfer of shares to the employees, and recording of shares in the specified register, concludes with the transformation of the form of organization into a corporation. Each corporation must have an Assembly of

Shareholders who elect members, and a President of Corporate Governance. The top management body in a corporation is Corporate Governance. The CEO of a corporation cannot be the President of Corporate Governance for business control reasons (Radovic-Jankovic, 2002).

The first hints as to how to establish corporate governance appears in legal acts that support the process of privatisation in Serbia. In these acts, corporate governance as a result of managerial turnover, is understood as a board of directors who represent shareholders. The corporate governance should enable the corporation to attract financial and human capital, perform efficiently, and “perpetuate itself by generating long-term economic value for its shareholders, while respecting the interest of stakeholders and society as a whole” (Krakovsky, 2002). To avoid problems that many European transition countries are facing at the moment, the Serbian Government is cautious in further defining the role of the main governing body in a corporation. Within the process of mass privatisation, the only participants who influenced the creation of corporate contracts were general directors and bureaucrats from a former socialist system. Since they were not interested in attracting shareholders and forming viable businesses, newly formed corporations did not attract international and national investors.

There are still no legal documents explaining how to organise management in small to medium private companies. It is believed, however, that with the development of public auctions this will become an imperative for the Government.

With the renewal of Serbia’s membership in IMF, the World Bank, and the European Bank of Reconstruction and Development, the Government signed an agreement with the Paris Club to undertake a phased, 66 percent write-off of debt totalling \$4.5 billion. This amount represents about 40 percent of the country’s total external debt. This write-off is expected to significantly help Serbia with economic reconstruction and reforms (Brankovic & Nenadovic, 2002).

The main initiatives of the European Union to financially help European countries in transition to develop their economy and democracy include the following fields: restructuring of state-owned companies; developing the economic sector, electric industry, telecommunication, institutions for environment protection and nuclear safety; reform of the public sector and SSS in particular, employment, education and health system (Jokovic-Tijanac, 2001). In the case of Serbia, since 2001, the European Agency for Reconstruction has been extremely supportive by providing donation to reconstruct public schools, electric industry, and bridges demolished by recent wars. The Agency is also in charge of writing tenders to attract foreign firms interested in developing businesses in Serbia.

The International Development Association approves short-term loans and financial structural credits over 30 years with the first 20 years a grace period. For financial structural credits the Association demands a fulfilment of special conditions that relate to SSS. In this way, it helps develop a new SSS that will assist to increase the process of transition.

GOVERNANCE IN BCI

In the beginning of the transition period, the management system in the BCI was based on the specific role of the CEO and a triple relationship: client-designer-contractor (Petrovic-Lazarevic, 2002).

The CEOs were appointed subject to their political loyalty and their useful connections with the political elite. They lacked financial accountability, paying little attention to the profitability of their enterprise. Such performance was supported by a concept of soft budget institutions overlooking efficiency incentives by allowing compensations in a form of subsidies and loans on easy terms. It also forced general managers to negotiate the tax obligation of each enterprise with the state authorities, which lead to corruption.

The BCI professional activities were affected by the triple relationship: client-designer-contractor. The client, as an initiator of a building-work construction, employed a designer to nominate a tender for selection of equipment for the building work. Following that, the designer provided the principle activities of the construction process. Then another tender was created for contractors or BCI organizations. To compete,

each contractor had to follow a legal bidding procedure. With the appointed BCI organisation, the designer made a detailed final plan of building work activities. The chosen BCI organization, as a contractor, had to follow the established plan. Accordingly, the contractor could not add, change, or reject any of the planned actions. This created a conflict of interests between designer and contractor ending in prolonged construction periods and additional building costs.

Transformation of firms in the BCI started in the early 1990s. It was followed by privatisation of socially owned enterprises. In an attempt to retain intact a company leaders' power large-scale state owned building and construction firms were sold to top managers, primarily those who were close to the state elite (Bojnec, 1999). However, with the imposition of UN sanctions, the development of financial market and stock exchange was stopped, leaving practically unchanged the role of top managers. Hence, in those firms leadership style resembled that of the pre transition era, and consequently the old triple relation. As the political elite protected top managers, their main concern was to become rich overnight.

A consequence of the gap between the abandoned SSS and the one in its infancy was the practice by which middle managers refused to acknowledge executive and employee use of organizational resources for their own purposes. The rationale for executive use had a moral tone. It was usually justified through the argument that a general manager had developed networks with the political elite which were important for the strategic development of the enterprise. Employees' use, however, was often characterised as cheating and stealing (Maruyama, 1993). This practice of skimming off funds from BCI enterprises, led to an increase in the financial status of top managers and their families.

In addition, privatisation of state-owned BCI companies contributed to increased unemployment. Quite a number of individuals were forced to leave their jobs and consequently established small-medium enterprises (SME). They supplied themselves with the equipment from bankrupt, former socially owned companies. But since the privatised, former state owned firms were able to keep a monopolistic position in the market by maintaining a close relationship with the state, and there was a lack of an adequate legal framework, development of SME was slow. That is, the effective enforcement did not allow enterprises to enforce contracts, collect debts or resolve disputes. Over-taxation, heavy administrative burdens and corruption led to the further deterioration of SME. Finally, many banks as a primary source of finance for SME, did not show any interest in supporting them (Privatizacija u Srbiji, 2001).

Although facing difficulties in running businesses, SME constituted a big step forward in order to solving the problem of governance left over from the pre transition period. Leaders in SME were in fact entrepreneurs that mostly ran family business. Their interest was to reach high profitability through competitive advantage, which is a characteristic of Western top management styles. Although some SME have improved their businesses within a short period of time, many new problems have appeared since there is no institutional support to encourage the transformation of leadership styles. That is, as a result of high unemployment, a problematic health system and an inadequate pension system, and lack of legislation to protect labour, managers in SME were allowed to treat employees the way they liked. Salaries were not paid regularly, there was no health and pension insurance, and employees could be sacked without cause. On the other hand, since there was no law to protect private business, SME faced problems relating to the Mafia. The Mafia, as an underground entrepreneurial group, established rackets in SME. Accordingly, because of this phenomenon many SME had to close their businesses (Serbiainfo, 2000).

In SME the organization of building and construction favoured the contractor, compared to the superiority of designer in the old triple client-designer-contractor relationship. Also, the old problem of the use of organizational resources for top managers purposes disappeared. By owing a small-medium enterprise, managers become very cautious of to what extent they should use their own resources for private purposes compared to use for business purposes. Since the determination of SME managers' is to run business profitably, the use of organizational resources by employees disappeared (Fogel & Zapalska, 2001). With the lifting of UN sanctions, BCI was in great demand to reconstruct the country. Privatised, former socially owned enterprises were offered many jobs by the Government. However, by accepting these jobs almost all firms become bankrupt, as before October 2000 the Government ignored to pay them after the completion of their work. The two remaining companies are now in a process of reshaping the role of their corporate governance according to Privatisation Law.

The new Government's establishment of institutions in support of the process of privatisation, reconstruction of the banking system and the beginning of the reform of the SSS have contributed to the further development of SME. According to the evidence of the Serbian Ministry of Urban Planning and Construction, in SME the role of a general manager has changed towards fulfilment of a company's mission. BCI governance in many SME has two levels. The first level is administration and research and development. The second level is preparation, engineering and logistics. According to the latest Building Law, only the designer can control activities in the construction site. One would assume that further legal and institutional support of corporate governance would contribute to the development of environments for SME that would increase their efficiency.

There is a common belief that leadership styles in BCI enterprises will be improved through foreign direct investments since foreign owners would import Western leadership styles along with their enterprises (Bojnec, 1999). In this respect, the Government makes an effort to create institutions that will facilitate foreign direct investments and reform SSS. So far, fiscal policies and spending on incentives have eliminated barriers to investment. Overall, economic and social conditions improved, assuring that foreign investment will be protected by a stable political regime based on the rule of law.

PRIVATISATION AND PUBLIC SECTOR GOVERNANCE

With the new Government in Serbia state ownership remains with the state administration, controlling the public sector: the army, police, health system, education, transport and the electric power industry.

The Privatisation Law states that the bodies of public sector institutions are the Managing Board, the Supervisory Board and the Director. The Government appoints members of the Managing Board and the Supervisory Board, with at least one member appointed upon the recommendation of the territorial local government (Radovic-Jankovic, 2002).

According to state law, the public and private sector receive equal treatment in terms of taxation. Local government, however, has the right to implement new taxation on enterprises, and citizens, for the sake of the prosperity of a local community.

In a pre transition period, Serbia had a recognised education system (by international standards) and good basic health services for the vast majority of population (Pfeffermann, 2002). The pension system functioned well. The Government, had loans approved from the leading international financial institutions to cover its budget deficits, enabling it to financially support pension funds. However, with the abolition of this system many problems appeared. At present, the Serbian Government is making an effort to improve both the health system and education, treating them as essential elements of SSS.

The health system includes private and public hospitals and services. In public hospitals medical treatment is free for all employees and their families. But at present these hospitals are impoverished. They cannot offer food, bed clothing, or medication to their patients. Consequently, the health system is officially proclaimed as the weakest point of SSS. In spite of a high health taxation rate, compulsory for every employee, funds are not sufficient to cover the costs of the health system. Therefore, the Government is forced to financially support it from its budgets. But since the Government budgets are modest and dependent on an existing weak economy, the health insurance problems obviously will not be solved in the near future. In addition, there is a problem of corruption in the area of the basic medical intervention, which the Government is determined to fight (Djindjic, 2002).

A similar situation exists with education which is financed from the Government budget and imposed fees. In the education industry, all primary schools are public. High schools and universities are both private and public. The intention is to help the best students to study regardless of their social status. A further problem is the low salaries of teachers and university lecturers.

In addition, because of rather poor Government budgets, average pensions are still low. Only with an overall improvement in the economy pensions will rise.

In the issue of unemployment, benefits equates to up to three monthly income payments to a redundant employee, or help is provided to enable an unemployed person to change qualification and therefore have more chances of re-employment. In both cases, an unemployed person must register with the Unemployed Service.

At the moment the Law of Privatisation is the most important legal act that supports SSS in the country. There is no direct help from leading international financial institutions in this respect, as it was in other transition countries in Europe. For example, loans that the IMF provides to Serbia are conditional in terms of insisting on the implementation of hard budget constraints, reduction of deficit, monetary stability, lower inflation rate, and liberalisation of prices. The purpose of these loans is to reconstruct only the infrastructure of the country and improve electric industry and roads (Djindjic, 2002).

PUBLIC SECTOR INFLUENCE ON BCI

Specific forms of corruption that appeared in the public sector, in particular in city councils and shire councils, affected SME in BCI. They are recognised as 'wild building' (Bakovic, 2001). Wild building is a part of organized crime that deals with collecting certificates and permission to start small-capacity buildings or alterations for residential and small business purposes. People who provide these certificates and permission are employees of local government. They are insufficiently paid, and, therefore, willing to accept bribes. On the other hand, formerly state and socially owned companies in the BCI, were not affected by wild building since they concentrated on large capacity building constructions being initiated by the Government since the ending of Balkan wars, and the termination of UN sanctions.

Wild building creates enormous long-term problems primarily in residential areas. Since 80 percent of all wild building housing, is sold in a real estate market, there is a need to determine whether these buildings are in accordance with a local urban plan. In this respect, the role of local government is very important. Following the Law, each local government must establish an urban plan which states what objects, those built according to legal regulations, can enter the plan, and what objects, those built against legal regulations, cannot. Buildings that do not fulfil legal regulations must be demolished. The urban plan will also serve as a basis for paying rates for a section on which an object is going to be built, connection to water, power, and gas. At present there is a problem of customers illegally connected to the water system in Belgrade. According to the estimates of the Serbian Ministry of Urban Planning and Construction, there are 20,000 illegal connection cases that must be solved. This problem is more complicated by the fact that the European Union, being a donor to Serbia, is strongly opposed to the termination of water connection to any citizen.

Apart from steps undertaken to overcome the negative consequences of wild building, the Serbian Government is determined to provide better conditions of employment in the public sector and improve SSS. These activities combined with activities undertaken in the private sector will contribute to an increase in the effectiveness of the BCI.

CONCLUSIONS

Determined to accelerate the transition of its economy towards global competitiveness, the Serbian Government is establishing new institutions and enforcing new legal regulations. This paper provides information to foreign investors as to what they may expect of governance in the private and public sector. The BCI was purposively chosen for two reasons. It plays a most important role in helping the economy of the country to quickly overcome the consequences of UN sanctions and the destruction of war, and the focus on the BCI will advance our understanding of recent Government steps carried out to improve management in this industry.

Since October 2000, the new Government instigated many initiatives to increase the process of privatisation resulting in changes of leadership, primarily in private sector. Accordingly, in the BCI the existing few huge companies are about to introduce a corporate governance system. In SME a pro-Western leadership style already functions. While undertaking steps to replace the old SSS with a new one, the Government has also enforced regulations to abolish a wild building and minimise its negative consequences on the prosperity of BCI.

Obviously, transformation of governance in the latest nation to transit to a market economy creates an environment to attract foreign investment, what will undoubtedly help improve the Serbian economy and its global effectiveness. In the future it will be interesting to investigate the further development of the new SSS and its influence on BCI competitiveness.

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